

Comments Template for Joint Consultation Paper concerning amendments to the PRIIPs KID (JC 2018 60)

**Deadline
6 December 2018
23:55 CET**

Name of Company:	Fédération des investisseurs individuels & des clubs d'investissement – F2iC	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question or a cell, leave the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, in Word Format, to CP-18-005@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p>		
Reference	Comment	
General Comments	<p>The F2iC (French Federation of Individual Investors and Investment Clubs) is a non-profit making association, located in Paris La Défense, which was set up in December 1968. It is made up of major financial institutions, listed companies and Euronext, all of which support the development of individual investment. F2iC's primary objective is individual shareholding promotion and financial education. It regroups today over 110,000 individual shareholders and investment club members. In its daily activities, the organisation helps individuals to create (or join) clubs and also provides a "hot line" service for any legal, tax or accounting questions which may be involved in their running or any question related to the Financial markets. An Internet site (www.f2ic.fr) provides all the necessary information on portfolio management, investment clubs and offers interactive headings answering the specific needs of club members and individual investors. An</p>	

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important conferencing programme, sponsored by listed companies, completes the range of services offered to individual shareholders. The F2iC is, since its creation, an organisation considered as being representative by the Stock Market Authorities and is thus associated with and consulted on different questions related to the market and private shareholding.

The F2iC welcomes the effort of the European Commission and of the European Supervisory Authorities to put forward proposals for targeted amendments of the Delegated Regulation (DR) concerning the presentation and content of the key information document (KID) for Packaged Retail and Insurance-Based Investment Products (PRIIPs).

The F2iC regrets that the very short consultation timeframe (less than a month) on such an important as well as technical issue puts representatives of savers and consumers at a strong disadvantage and gives them too little time to provide a detailed and complete response.

The F2iC wishes to stress that it has always strongly supported the aim of the PRIIPs Regulation:

- It is the first and only horizontal EU set of investor protection rules that encompasses both non-insurance based and insurance based retail investment products.
- The PRIIPs KID aims “to enable retail investors to understand and compare the key features and risks of the PRIIP” (article 1 of the PRIIPs Level I Regulation). This major investor protection initiative must be effective and preserved for EU savers' sake.

The concept of the Kid is admirable; unfortunately, its execution is very questionable.

The purpose of the PRIIPs Regulation is indeed more precise and clearer than that stated by the ESAs in the consultation paper: it is again “to enable retail investors to understand and compare the key features and risks of PRIIPs” However, the resulting Key Information Document (KID) is very difficult to understand and almost impossible to compare even for the finance experts, not to mention the average European saver.

It is also much too often highly misleading for savers and investors, especially regarding the “future performance scenarios”, one of which is in turn used to compute and disclose so-called

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“reduction in yield” cost . As the ESAs’ November 2018 Consultation Paper on PRIIPs, page 10, stated: “Future outcomes are impossible to predict”.

“Key information documents are misleading because, when you wade through the complexity, the prospective returns are little more than a projection of historic returns over the past five years. This is a triumph of pseudoscience over common sense. Such past performance is no guide to the future.
In the past, regulators have rightly emphasized to investors that past performance should not be used as a guide to what they can expect in future. Yet it seems that they have not succeeded in persuading themselves of this important truth.”
(Professor John Kay, Financial times, January 2018)

Albeit most of the ESAs proposals to amend the DR are aimed into the right direction, they are unfortunately far from actually addressing these fundamental issues The F2iC and most other stakeholders have repeatedly highlighted in relation to the information presented in the PRIIPs KID. Moreover, a significant number of other serious issues are also not addressed, nor identified by this Public Consultation:

- The violation of several MIFID II rules concerning information disclosure; in particular “Future performance information based on past performance should be accompanied by a prominent warning that it is not a reliable indicator of future performance” .
- The overly optimistic assumptions of future performance scenarios: last 5-year historic performances which were “bull” market years for both stocks and for bonds), their misleading linearity, and the inadequate and usually too short-term past performance basis (only five years including for pension products such as life cycle funds);
- The method to evaluate transaction costs leads sometimes to “negative costs” (i.e. income) which is non-sense and can only confuse individual investors;
- The quasi impossibility to compare costs from one product to the other;
- The “sovereign” power of each and every PRIIP manufacturer regarding the choice of the recommended holding period, that highly impacts current cost disclosures in the KID;
- The absence of any disclosure of objective benchmarks with which the product’s

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performances can be compared.

Moreover, the F2iC is very thankful to the ESAs to propose in this CP to reintroduce the disclosure of long term (ten years minimum) past performance and relative to their investment objectives (benchmarks, as currently mandated to UCITS funds. Indeed, the current KID eliminates all comparable and standardized information on long-term past performance of both the PRIIPS and of their benchmarks, preventing investors from:

- Knowing whether the product has made any money or not for the investor in the past, hiding instead this crucial info to consumers (e.g. high fee money market funds which have destroyed value in recent years)
- Assessing if/how the manager has achieved its investment objectives
- Comparing similar products (e.g. two European equity index funds).
- Also, long term past performance relative to benchmarks (not short term absolute past performance) can still be a reliable indicator of future performance for specific categories of retail investment products such as index funds/ETFs and with profit insurance policies: as for both the level of fees is highly predictive of future returns.

However, only placating the past performance graph of the UCITS KIID next to the existing future performance scenarios, which will remain, and in addition remain as they are (same methodology and same numbers as acknowledged by the ESAs' CP) will confuse investors further.

A full review of the PRIIPs Regulation (level 2 and level 1) is highly demanded by all stakeholders. The European Commission should have done it already this year to comply with Article 33 of the Level 1 Regulation. Thanks to the European Parliament, an amendment seems likely to require the EC to do the full review by next year (2019). The F2iC strongly supports this amendment. This would give time to conduct a consumer testing to improve this ill-designed Regulation and allow for the collection of robust evidence and data.

Moreover, these "quick fixes" to level 2 Regulation only should not exempt EU Authorities to make the more important and profound changes following the full review. This would result in

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	<p>changing the KID for the same product for the third time in a row in the course of about 2 or 3 years, adding to the confusion of retail investors and unnecessarily burden PRIIPs manufacturers. The number of revisions should be reduced to the minimum possible, for purposes of legal certainty and clarity.</p> <p>To conclude, The F2iC asks the European Commission and the ESAs to address possible amendments to the current PRIIPs KID as soon as possible through a full review, including Level 1 legislation, rather than trying to patch it first with targeted quick fixes in haste , without consumer testing, and on the level 2 Regulation only .</p>	
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